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March 8, 2013

VIA: Electronic Mail

Steven V. King
Acting Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Docket No. UG-121501 - Avista Corporation's 2012 Purchase Gas Cost Adjustment

Dear Mr. King:

On September 13, 2012, Avista Corporation ("Avista") filed its annual Purchased Gas Cost Adjustment with the Utilities and Transportation Commission ("Commission"). On October 31, 2012, the Commission approved the Company's proposed tariff revisions to go into effect, on a temporary basis, and per the recommendation of Commission Staff ("UTC Staff"), and ordered that the UTC Staff begin an investigation of the natural gas hedging and procurement practices of Avista and the other natural gas distribution companies serving in the State of Washington. The Commission requested that Staff file a report no later than March 1, 2013, and include in its report, recommendations on the disposition of the tariff filing by Avista or the need for further process to make the appropriate determination.

On March 1, 2013, Commission Staff filed its report with the Commission, requesting that the Commission dismiss the "Complaint and Order Suspending the Tariff Revisions; Allowing Rates on a Temporary Basis, Subject to Revision", and allow the tariff revisions to become effective on a permanent basis. Further, Staff recommended that the Commission issue

a CR 101 and commence workshops to examine whether a rulemaking, policy statement or other procedure should be pursued with respect to the natural gas hedging practices and policies of the natural gas distribution companies.

Avista offers the following comments in response to UTC Staff's report. First, Avista agrees with UTC Staff that the tariff revisions proposed by the Company, and approved on a temporary basis, should be made permanent.

As it relates to Staff's and Public Counsel's general findings that the financial hedging of natural gas employed by all of the natural gas utilities in Washington has resulted in "losses", the Company agrees that hedging, in general, will lead to circumstances where some purchases are "in the money" and some purchases are "out of the money". Over the past five years, the natural gas industry has fundamentally changed, with the proliferation of natural gas derived from unconventional sources, *i.e.*, through horizontal drilling for shale gas. The rapid and dramatic increase in natural gas supply has led to a substantial decrease in wholesale natural gas costs. Although this decline in natural gas prices has been beneficial for customers, it also brings with it a certain amount of "out of the money" hedges from the hedging program.

Avista utilizes a natural gas Procurement Plan which includes hedging a portion of the supply requirements at a fixed price (on both a short-term and long-term basis), storage utilization, and index purchases. Avista developed, and refined, this Procurement Plan over a number of years with consultation and input from Commission Staffs in all three of the states in which we serve. The Company meets on a regular basis with the Staffs of all three jurisdictions to review its current and prospective Procurement Plan, including the design and percentage of natural gas purchased through hedges.

If the Commission chooses to issue a CR 101, Avista would fully participate to explore the various topics and questions raised in Staff's report. The Company believes, however, that any findings and/or recommended changes that may ultimately result from the CR 101 process be implemented on a prospective basis and not be applied retroactively.

If you have any questions regarding these comments, please contact Steve Harper, Director of Natural Gas Supply at 509-495-2076 or myself at 509-495-8620.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick Ehrbar', followed by a long horizontal line extending to the right.

Patrick Ehrbar
Manager, Rates and Tariffs